

2001 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, February 2002

BAHRAIN

Key Economic Indicators 1/

(Millions of current U.S. dollars unless otherwise indicated)

	1999	2000	2001
<i>Income, Production and Employment:</i>			
Nominal GDP	6,597	7,942	8,299
Real GDP Growth (pct)	4.2	5.1	4.5
GDP by Sector:			
Agriculture and Fisheries	60	63	66
Manufacturing	805	825	845
Financial and Insurance	1,143	1,310	1,375
Government	736	745	760
Per Capita GDP (US\$)	9,829	9,986	10,100
Labor Force (000s)	306	318	322
Unemployment Rate (government figure -pct)	2	3	7.8
<i>Money and Prices (annual percentage growth):</i>			
Money Supply Growth (M2) (pct)	4.2	10.2	10
Consumer Price Inflation	-1.3	-.7	2.5
Exchange Rate (BD/US\$ - annual average)	.376	.376	.376
<i>Balance of Payments and Trade:</i>			
Total Exports FOB	4,126	5,680	4,770
Exports to United States	225	338	370
Total Imports CIF	3,684	4,595	3,975
Imports from United States	348	449	494
Trade Balance	441	1,085	795
Balance with United States	-123	-111	-124
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	-2.5	0	0
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,039	1,233	1,249
Aid From United States	0	0	0
Aid From All Other Sources	125	125	125

1/ Figures for 2001 are estimated.

Sources: Bahrain Monetary Authority, *Quarterly Statistical Bulletin, June 2001*; Ministry of Finance and National Economy, *National Accounts 2000*; Ministry of Labor and Social Affairs. U.S. trade figures: Department of Commerce, Treasury, and International Trade Commission.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies that affect demand for U.S. exports, can best be described as laissez faire. Except for certain basic foodstuffs and petroleum products, private companies set the prices of goods, and undertake the importation and distribution of foreign commodities and manufactured products. In January 2000, the Government of Bahrain abolished import duties on 43 food items and reduced duties on consumer goods from 10 percent to 7.5 percent. By contrast, the tobacco import duty increased from 70 to 100 percent. Tariffs on cars and boats (20 percent) and alcoholic drinks (125 percent) remain in effect. Bahrain remains committed to further tariff cuts in accordance with a planned Gulf Cooperation Council (GCC) customs union for 2003. In principle, there is no tax or duty on imports of raw materials or semi-manufactured goods for manufacture, on imports required for development projects, on transshipments, or on goods for re-export.

Over the past three decades, the government has encouraged economic diversification in order to reduce the country's dependence on oil and to create employment opportunities for its growing population. In addition to investing heavily in such basic industries as aluminum smelting, petrochemicals, and ship repair, it has labored to create a respected regulatory framework for its significant financial sector. The Amir is currently pushing for greater private sector investment, particularly in IT, telecommunications, and tourism. Oil and gas continue to play a dominant role in Bahrain's economy, providing two-thirds of total exports. Bahrain produces around 37,000 barrels per day from its onshore oil field and receives the entire output of 140,000 b/d from an offshore field shared with Saudi Arabia. Bahrain also imports another 200,000 b/d of Saudi crude for refining. Bahrain's natural gas production is about 1.11 billion cubic feet per day. New possibilities for oil and gas exploration have recently come to the fore with the long-awaited settlement of the Hawar island dispute with Qatar by the International Court of Justice in February 2000.

The government budget is prepared on a biennial basis. For the 2001-2002 budget, revenue is forecast at approximately \$1.8 billion annually, up 17 percent from the year 2000. Expenditure is projected at nearly \$2.2 billion in 2001 and just over that in 2002, up 12.4 percent. Intake from oil revenues constitutes nearly 55 percent of total projected revenues. The government planned to cover the resulting deficit (of about \$408 to \$424 million) with internal borrowing and soft loans from Arab funds and the Jeddah-based Islamic Development Bank. Sustained high global oil prices since mid-1999, however, tripled government oil revenues in 2000 (the most recent biennial budget was based upon a conservative oil price estimate of \$15

per barrel). Hence, the government registered an (unplanned) budget surplus in 2000 and, if oil prices remain higher than \$15 per barrel, might generate a surplus again in 2001.

2. Exchange Rate Policies

The Bahraini Dinar is freely convertible and has been pegged against the U.S. dollar since 1980 at one dollar equals 0.377 BD. Bahrain enjoys a fully open exchange system with no restrictions on capital repatriation or transfers. Bahrain has no black market or parallel exchange rate.

3. Structural Policies

Pricing: With the exception of a few basic foodstuffs and petroleum product prices, the government does not control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices depend on competition, the source of supply, shipping costs, and agent markups. Agent commissions are capped at five percent and will be phased out by 2003. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, and the 1998 revision in the Agency Law that abolished sole agency requirements, local merchants have been unable to maintain excessive margins, forcing more competitive pricing. U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. The government makes major purchasing decisions through the tendering process. For major projects, the ministry concerned extends invitations to select pre-qualified firms. Smaller contracts are sometimes handled by departments within ministries, and are not necessarily subject to pre-qualification. Bahrain still officially participates in the primary Arab league economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third country firms having economic relationships with Israel.

Taxation: Bahrain is essentially tax-free. There is no individual income tax, nor does the country have any Value-Added Tax, property tax, production tax, or withholding tax. The only exception would be for companies engaged in petroleum extraction and refining. Bahrain collects customs duties and a few indirect and excise taxes, which include a tax on gasoline, a 10 percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates. Firms with 50 plus employees must pay a training levy at a rate of three percent of the payroll for expatriate employees and one percent for Bahrainis. The government charges a fee for the issuance of expatriate work permits, an attempt by the Government of Bahrain to encourage employment of Bahraini citizens.

Regulation: The Gulf Cooperation Council (GCC) has made economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain) a top priority. In an October 2001 meeting in Manama, the date for a customs union was moved up from 2005 to 2003. In addition to duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards

and industrial investment coordination. An important GCC goal under discussion is the development of a unified Gulf currency.

4. Debt Management Policies

The government strictly limits its indebtedness to foreign financial institutions. To date it has been able to finance its budget deficits through local banks. The BMA (Bahrain Monetary Agency – Bahrain's central bank) issued its first government bonds in 1977 and its first treasury bills in 1986. The Government of Bahrain occasionally uses the bonds to finance large infrastructure projects. The current outstanding official debt is \$840 million of which four bonds (13, 14, 15, and 17) have a maturity of five years. Issues 16a and 16b were issued in 1999 and 2000 at \$265 million each in value with a maturity of 30 years. Treasury bills are offered with three different maturity periods, three months, six months, and one year. The current outstanding amount is \$504 million in total.

5. Significant Barriers to U.S. Exports

Licenses: Import licenses for items to be sold in Bahrain are issued only to locally established companies that are at least 51 percent Bahrain-owned. Foreign companies established prior to 1975 may be exempt from this rule under special circumstances. All imported beef and poultry products require a health certificate from the country of origin and a Halal slaughter certificate issued by an approved Islamic center in the country of origin.

Services: Bahrain's two biggest service sectors, the banking and tourism/hospitality industries, are generally open. For local employment purposes, all banking institutions must have a majority Bahraini staff – a requirement that appears to be easily met. The Government of Bahrain moved quickly to open up the life insurance business to foreign competition, although general insurance companies still require 51 percent Bahraini ownership. Another major sector in Bahrain, telecommunications, is not yet open for foreign investors. Batelco (Bahrain Telecommunications Company) is a majority state-owned firm and is the monopoly service provider for local, long distance and Internet communications. The government indicated in 2001 that it is considering a partial opening of the telecom market in the future.

Standards: Bahrain strictly enforces shelf-life standards on 58 of 75 food products listed in Gulf Standard 150/1993. Shelf-life standards for the remaining 17 items are less stringently applied. This GCC-adopted standard is in violation of the WTO SPS agreement as scientific studies backing the regulations have yet to be produced. The manufacturer must also print production and expiration dates on the label or container. Suppliers should work closely with their local importers to ensure compliance with local shelf-life requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively seeks foreign investment, establishing in spring 2001 an Economic Development Board to facilitate investment. New regulations permit 100 percent foreign ownership of new industrial establishments and the establishment of representative offices or branches of foreign companies without local sponsors. All commercial investments remain subject to government approval, and most must be made in partnership with at least 51 percent Bahraini equity. As of January 2001, non-Bahraini firms and GCC nationals may own land. Non-GCC nationals may now own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects and training centers, in specific geographic areas. The Prime Minister issued an edict in February 2001 stipulating that land bought by foreigners must continue to be used for its designated purpose. Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first GCC state to do so. The agreement came into force in May 2001.

Government procurement practices: Foreign firms in Bahrain are required to have a local agent or a local partner before bidding on a government contract. The government makes major purchasing decisions through the tendering process with invitation being issued to selected pre-qualified firms. Firms do not need to pre-qualify for smaller contracts. Bahrain tends to give preference in government tenders to Bahraini and GCC bidders up to a price differential of 10 percent, provided that specifications of kind and quality are met, although this provision is not always enforced. Government tendering procedures for large projects are not always transparent, and U.S. companies have sometimes reported operating at a disadvantage compared with other international firms. Contracts are not always decided on a basis of price and technical merit. Bahrain is not a signatory to the WTO Agreement on Government Procurement.

Customs procedures: As a member of the Arab League, Bahrain is officially committed to enforcing the primary aspect of the Arab League boycott of Israel, but enforcement is lax. Occasionally outdated tender documents reference the secondary and tertiary aspects of the AL boycott (not enforced since 1996), but such instances are usually quickly remedied. Bahrain customs protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods may be imported by a registered agent, or, if by a third party, upon payment of a commission to the agent. With the abolishment of the sole-agency law, this arrangement will be phased out by 2005.

6. Export Subsidies Policies

Bahrain has phased out most industrial subsidies for export industries, but permits the duty-free importation of raw material, equipment, and/or machinery for newly established export industries. All industries in Bahrain, including export and foreign owned firms, benefit from subsidized utilities.

7. Protection of Intellectual Property

Bahrain was removed from the U.S. “Special 301” Watch List in 1999 and remained off in 2000 and 2001. This action was in recognition of the government’s efforts to fight copyright piracy. Patent and trademark protection has always been strong. Watchdog organizations report that piracy in audio and videotape sales has been virtually eliminated. Software piracy remain problematic. Bahrain is in the process of becoming fully TRIPS-compliant. In 1996 the government acceded to The Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property.

8. Workers Rights

a. The Right of Association: The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain. In 2001, the Government of Bahrain began entertaining the idea of allowing the formation of trade unions. The Ministry of Labor and Social Affairs is now working with the ILO on a draft law. Article 27 of Bahrain’s Constitution provides conditional “Freedom to form associations and trade unions.” To curb past episodes of labor unrest, the government passed a series of labor regulations that allowed the formation of elected workers' committees in large Bahraini companies. Today, worker representation in Bahrain is based on a system entitled Joint Labor-Management (JLC). There are currently 18 JLCs in Bahrain.

b. The Right to Organize and Bargain Collectively: Bahrain’s labor law neither nor denies workers the right to organize and bargain collectively. While JLCs are empowered to discuss labor disputes, organize workers’ services, discuss wages, working conditions, and productivity, workers have no independent recognized vehicle for representing their interests.

c. Prohibition of Forced or Compulsory Labor: Bahrain’s laws do not prevent exploitation of expatriate workers (especially Asian domestics and sex workers). The Government of Bahrain is currently examining a number of measures pertaining to labor problems and housemaid’s disputes in order to overcome such sensitive issues. It has already taken positive steps to regularize labor in Bahrain, as is the case of the free visa laborers. According to Ministry of Labor and Social Affairs officials, the ministry is currently working on an updated labor law to replace the 1976 one and is expected to raise it to the Cabinet for approval shortly.

d. Minimum Age for Employment of Children: The minimum age for employment is 14, and juveniles between the ages of 14 and 16 many not be employed in hazardous conditions or on night shifts. Their working hours should not exceed six hours per day or on a piecework basis. Labor Ministry inspectors effectively enforce child labor laws. Child labor is not considered a problem in Bahrain and takes place within family-operated businesses. The Government of Bahrain is currently studying a law that would make education compulsory to eliminate all forms of child labor. The Government acceded in February to ILO Convention No. 182 on the Worst Forms of Child Labor.

e. Acceptable Conditions of Work: Minimum wage scales, set by governmental decree, exist for government employees. Wages in the private sector are determined on a contract basis. Foreign workers receive benefits such as annual passage home, housing, education bonuses, and medical insurance that are considered by employers as part of the salary. Bahrain's labor law mandates acceptable working conditions for all adult workers, including adequate standards regarding working hours (maximum 48 hours per week), and occupational safety. The Ministry has been holding symposiums to raise awareness among major companies and employers in general, regarding the occupational safety and security in the place of work. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor laws are generally considered to favor the worker.

f. Rights in Sectors with U.S. Investment: The company law does not discriminate at all against foreign-owned companies and is in the process of being liberalized further. Workers at all companies with U.S. investment enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000

(Millions of U.S. Dollars)

Category	Amount
Petroleum	-83
Total Manufacturing	(D)
Food & Kindred Products	(D)
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	7
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	(D)
Wholesale Trade	0
Banking	(D)
Finance/Insurance/Real Estate	-5
Services	(*)
Other Industries	(*)
TOTAL ALL INDUSTRIES	-125

(D) Suppressed to avoid disclosing data of individual companies.

(*) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.